

TAB

I N T R O D U C T O R Y R E M A R K S

Mr. Chairman, it is a pleasure to appear here today. As you have been told, Mr. McCone is away for a few days to take some leave and for other activities, so I am appearing as the Agency's representative on HR 12923.

With me today are Frank Wisner, now Special Assistant to the Director of Central Intelligence but who for many years in the past was concerned with directing our clandestine services effort; Emmatt Echols, our Director of Personnel;



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EXPLANATION AND JUSTIFICATION

To Accompany H.R. 12923, To Amend
The Central Intelligence Agency Act
Of 1949, As Amended, And For Other Purposes

Copy No. 1

Name General Carter

The remainder of this first page of text discusses the legislative means of accomplishing this. Unless you have some questions on this, I would like to go on to page 2.

EXPLANATION AND JUSTIFICATION

(Note: Bracketed portions only are classified.)

1. Purpose of Proposed Bill

a. The proposed bill permits the Agency to improve its retirement program by authorizing the establishment of a retirement system corresponding to that of the Foreign Service. The Central Intelligence Agency needs to attract and retain a force of highly motivated careerists who are intensively trained in unique skills. However, the Agency is unable in fact to provide full-term careers for many individual officers. In order to minimize the adverse effects of necessary programs of managed attrition and to preserve its ability to recruit and retain the high caliber personnel it needs, the Agency must make reasonable provision for the future of those individuals who must be separated before completing a full-term career of thirty or so years. Therefore, Section 3 of the proposed bill adds a new paragraph (g) to Section 5 of the Central Intelligence Agency Act of 1949, as amended, authorizing the Director of Central Intelligence to exercise the authority available to the Secretary of State under the Foreign Service Act of 1946, as amended, in order to establish a retirement and disability system corresponding to that available to Foreign Service Officers for a limited number of Agency employees.

b. Since all provisions pertaining to the retirement of Foreign Service Officers are not contained in a single Title of the Foreign Service Act and since it is possible that future amendments relating to retirement may occur elsewhere than in Title VIII, which is entitled "The Foreign Service Retirement and Disability System," it is necessary to make general provision for the Director of Central Intelligence to adopt provisions of law applicable to Foreign Service Officers for Agency employees. Additionally, most of the basic travel allowances and overseas benefits available to Foreign Service personnel are authorized for Agency employees by existing Section 4 of the Central Intelligence Agency Act of 1949, as amended. However, amendments to the Foreign Service Act over the years have of necessity required the Agency to seek legislation periodically in order to keep such authorities up to date and uniform with those available to Foreign Service personnel. Consequently, it is now proposed that the existing Section 4 of the Central Intelligence Agency Act be rescinded by Section 2 of the proposed bill. In lieu of the rescinded authorities, the new Section 4 of the Central Intelligence Agency Act authorizes the Director to adopt and apply to Agency employees provisions of law applicable to Foreign Service personnel and to exercise with respect to Agency employees the authority available to the Secretary of State for the purpose of having Agency employees accorded appropriate benefits, rights, and allowances now authorized for Foreign Service Officers.

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2. Problem

All regular employees of the Central Intelligence Agency are at present covered by the provisions of the Civil Service Retirement Act. Such coverage is appropriate for those whose conditions, obligations, and terms of service are comparable to those of federal employees generally. However, the Agency has a serious problem in its need to make more adequate provision for certain of its employees who should be retired at an earlier age and with a more equitable annuity than can be provided under the Civil Service Retirement Act. This need stems from the fact that the Agency cannot provide to or expect from many individuals in its service a full-term working career of thirty or so years.

3. Background

a. The conditions underlying this situation are complex. For some years, the Agency has recognized that it faces a serious dilemma. On the one hand, the nature of its mission requires the employment of people who are highly motivated and who develop unique and specialized abilities through their continuing training and service over the years. Moreover, the nature of the Agency's mission requires that a substantial proportion of its personnel accept, as do members of the military services and the Foreign Service, the obligation to serve anywhere in the world at the Agency's direction---not at their own will---and to be available for duty on a 24-hour-a-day basis. In sum, the employment of people to serve on a career basis is essential to fill the majority of the Agency's requirements for personnel. On the other hand, factors directly related to the nature and conditions of service in the intelligence field and factors affecting the ability and desire of individuals to remain in such work on a long-term basis make it infeasible to provide full-term employment for all careerists.

b. The nature of the work involved in the Agency's operations requires people who have a high degree of vigor, vitality, endurance, resilience, and adaptability. Such traits are required to cope with the stresses and strains occasioned by uneven and uncertain hours and days of work, duty in unhealthful locations with less than adequate medical facilities, or arduous, and not infrequently hazardous, assignments. [For example, the responsibility of the Agency for covert cold war functions and continuance of counter-insurgency activities requires the Agency to employ numbers of individuals whose skills are not necessarily adaptable to full-term careers.]

c. [There is a further requirement that officers serving overseas must normally perform their work under the cover of employment with some other organization, a requirement which limits their long-term utility. The usefulness of an officer is seriously impaired if not destroyed if his true employment affiliation is revealed. However, the longer he serves under cover, and particularly if his cover must be changed in the course of moves from one post to another, the greater becomes the risk that his true affiliation will be inadvertently revealed to or inferred by hostile parties.

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d./ There are other factors pertaining to the individuals themselves which, over the years, limit their ability and desire to continue in overseas service. First, there is "motivational exhaustion." This term is used to describe a gradual lessening of interest and enthusiasm of an officer as a result of impingements on his personal and family life. These stem from the transient nature of his assignments, the complications and restrictions of security requirements, and intrusions on his family life [occasioned by the requirement that he spend his apparent "leisure time" in performing additional Agency duties]. Further, while all Agency employees are subject to security restrictions which place severe limitations on their personal freedoms, employees serving abroad are subject to even greater restrictions [and, in addition, must conduct their personal affairs in a manner These factors tend to lessen the enthusiasm and willingness of the family to accompany the officer on further assignments overseas. Lastly, our experience has shown that many employees or members of their families will in time incur physical impediments which limit or preclude further assignment overseas.

e. The dynamic nature of intelligence activities produces sudden and sometimes radical shifts in the types of personnel required. Completion of a mission of a temporary nature or a shift in emphasis or direction of operations may result in an overabundance of officers who are skilled in a relatively narrow field. Their primary qualifications thus become obsolete or unneeded and they become "occupationally surplus."

4. Manpower Control

a. The Agency finds it increasingly necessary to impose manpower controls to ensure appropriate alignment as to age, qualifications, and other characteristics of its employees /engaged in conducting or supporting foreign intelligence operations/. Insofar as possible, imbalances should be and are corrected by the reassignment of officers who cannot or should not continue in such work to other fields of work in the Agency. It is a certainty, nonetheless, that encouraged and induced attrition will be necessary. A program of managed attrition, however, is feasible only if it is linked with a system of retirement benefits which are sufficient to induce an employee or a prospective employee to take the risk that he may be one of those individuals who cannot serve a full-term career.

b. The seriousness of this risk to the individual is greatly augmented by the difficulty which he will encounter in effecting a transfer from intelligence activities to other government or commercial fields. The principal reason for this is that the special skills required for intelligence work are not ordinarily required in other fields. Other reasons are the inability of employees for security reasons to describe or confirm to a prospective

EXPLANATORY NOTES FOR CHART: COMPARISON OF PRINCIPAL PROVISIONS OF THE CIVIL SERVICE AND FOREIGN SERVICE RETIREMENT SYSTEMS

1. EMPLOYEE CONTRIBUTION: The employee's contribution is the same under either system.
2. MAXIMUM ANNUITY: Civil service permits 80% of base pay. This results from 41 years 11 months of service. Foreign Service permits 70% of base pay which results from 35 years of service. The lower limit under Foreign Service is not significant since our entire emphasis is shortening total length of service.
3. FORMULA FOR COMPUTING ANNUITY: The Foreign Service system uses a straight 2% formula. Under civil service, the formula is $1\frac{1}{2}\%$ for the first 5 years, $1\frac{3}{4}$ for the second 5 years, and $2\frac{1}{2}\%$ thereafter. You will note that the civil service system requires a reduction in annuity for each year under 60. This amounts to 15% at age 50. The Foreign Service system has no such reduction.
4. MANDATORY RETIREMENT: Generally, the Foreign Service mandatory retirement age is 60, which is 10 years below that of the civil service system.
5. DISCONTINUED SERVICE/SELECTION OUT: While both systems have an age 50 with 20 years of service feature, as I have explained, there is a substantial increase in the amount of annuity under the 2% Foreign Service formula due to the fact that there is no actuarial reduction for age. In addition, Foreign Service Officers in Classes 1, 2, and 3, with 5 years of service, receive an immediate annuity regardless of age. When ineligible for an immediate annuity, officers in Classes 4 through 7 receive separation compensation.

The remaining features are generally comparable, however under the Foreign

Service system a deferred annuity begins at age 60 rather than 62.

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employer the scope and level of his duties and responsibilities. Further, there is a reluctance on the part of other employers, both government and private, who are engaged in business overseas to hire a former intelligence officer. This reluctance stems from their concern that the attitudes of foreign officials toward their enterprises might be adversely affected if they were known to employ former intelligence officers.

c. As part of its manpower control program, the Agency has instituted administrative procedures for identifying employees who become surplus to its needs because of the several factors described above and has recently engaged in an exercise which will result in the separation of approximately 150 such individuals. This process was made the more painful because of the relatively inadequate assistance which the Agency could offer those separated in making occupational transfers or in retiring prematurely. The benefits available were limited to those provided under the discontinued service provisions of the Civil Service Retirement Act and to modest separation compensation payments from the Agency which are related to years of service and salary.

5. Proposed Retirement System

a. In order to minimize the adverse effects of such programs on the Agency's ability to recruit and retain the caliber of personnel needed, and particularly to minimize their effects on the dedicated personnel already in the service of the Agency, better provision must be made for the futures of those individuals who are separated before completing a full-term career. An important means for doing so is to establish a retirement system permitting earlier retirement with a more nearly adequate and equitable annuity than is possible under the civil service retirement system. The Foreign Service system is more suitable for those Agency employees whose careers have involved comparable conditions of service. Appendix A compares the pertinent provisions of the Foreign Service and the civil service retirement systems. This chart is based on a similar chart appearing in the Report of the House Committee on Foreign Affairs in the 2nd session of the 86th Congress. It was prepared at that time in connection with proposed amendments to the Foreign Service Act of 1946, as amended, relating to the retirement system which proposals were subsequently enacted into law.

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b. Aside from the additional special requirements applicable to Agency employment, employees who serve overseas are subject to essentially the same conditions of service which were the basis for the development of the Foreign Service retirement system. By adopting a system corresponding to the Foreign Service system, the Agency can take advantage of the considerable study and experience which have gone into its development. /It is

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c. Such a retirement system would not be appropriate for all Agency employees and it is not the Agency's intention in requesting authority to

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Small copy of chart
at Tab 4

EXPLANATORY NOTES

FOR CHART:

APPLICATION OF NEW RETIREMENT SYSTEM TO AGENCY POPULATION

This chart shows the estimated number of Agency employees who would be affected by this system and those that would not.

Of a total strength of roughly [redacted] would have the potential for meeting the eligibility criteria of the new retirement system.

We currently [redacted] employees overseas.

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25X9A2 Of [redacted] potentially eligible, we estimate that a maximum of [redacted] eventually qualify and retire under this system.

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[redacted] difference results from failure to qualify and from attrition.

Based on these figures, you can see that only approximately [redacted] of our employees will participate in this system.

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establish such a system to apply it to all. The employees who are to be designated for coverage under this system will undergo a rigid selection process. The essential criteria for coverage under the proposed retirement system would be as follows:

(1) Career employees whose duties and responsibilities are predominantly concerned with the conduct and support of intelligence operations in foreign countries /or with covert support in the United States of such operations under comparable conditions.

(2) Career employees whose duties are so specialized that they are placed at a special disadvantage when required to seek other employment.

6. Estimated Number of Employees under Proposed System

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will qualify for coverage under the new system; civil service retirement will remain the retirement system for all other employees.

CHART

b. Normally, we would anticipate that an average of about 27 of these employees would become eligible for optional retirement under the civil service retirement system during each of the next five years. For the reasons presented in justification of our need for a retirement system comparable to that of the Foreign Service, and to correct imbalances in the age make-up of this group, we would hope, under the new system, to increase the average number of retirements from this group by about 40 in each of these years. During the past year the average age of Agency personnel who retired under the civil service retirement system was 66. We hope, in time, to lower the average retirement age of those under the new retirement system to about 55 years which is comparable to the average retirement age in the Foreign Service.

7. Cost Estimates OMIT: Alternative text on next page.

a. There will be certain increased costs for the administration of the retirement system. For reasons of efficiency and security, it is considered essential that full administration of the program excluding maintenance of the fund by the Department of the Treasury (as required by law in the case of the Foreign Service Retirement Fund) be accomplished within the Agency. It is estimated that by the end of the first five years the administration of the proposed program would cost approximately \$80,000 per year with an increase of approximately eight man years. Internal administration of the program would include determinations of eligibility and entitlements, payment of retirement benefits, and all related administrative matters.

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[Alternative Text on Cost Estimates]

With your permission, I will deviate from the formal text of the explanation again at this point and merely summarize the paragraphs on cost estimates. If you have questions on the details, I shall of course be glad to try to answer them.

We estimate that, when our proposed retirement program is fully developed, the maximum additional cost to the Government would be

25X1A1A [redacted] annually if it were fully and currently funded. However, it has not been the practice of the Government to fully fund its retirement programs and actual appropriation costs to CIA would be substantially less.

25X1A1A We have calculated the additional annuity payout cost for the next five years at [redacted]. This is based on an estimate of [redacted] people retiring each year at an average additional annuity cost of [redacted].

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These costs would be substantially offset by the fact that there is a considerable time lag in the chain of recruitment, reassignment, and promotion actions which would result from these retirements.

25X1A1A As a final cost factor, we estimate that the cost to the Agency of administering this program will increase over a five-year period and level off at about [redacted]. This amount consists of the salaries and related costs for eight employees.

[Skip Appendix A and turn to Tab 2 for additional remarks and examples.]

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APPENDIX A

COMPARISON OF FOREIGN SERVICE RETIREMENT
AND DISABILITY SYSTEM WITH PERTINENT PROVISIONS
OF THE CIVIL SERVICE RETIREMENT SYSTEM

**COMPARISON OF FOREIGN SERVICE RETIREMENT AND DISABILITY SYSTEM
WITH PERTINENT PROVISIONS OF THE CIVIL SERVICE RETIREMENT SYSTEM***

| (1) Items | (2) CSR | (3) FSR | (4) Section | (5) Comments |
|--|---|--|----------------|--|
| A. Coverage..... | Government employees generally, unless temporary, intermittent or subject to another Federal retirement system. | All FSO's, plus non-FSO's who have served as chiefs of mission for an aggregate period of 20 years or more; Foreign Service Staff (FSS) officers and employees with 10 or more years of continuous service in the Foreign Service. | 803 | Most Staff officers and employees and Foreign Service Reserve officers are presently covered by CSR. |
| B. Contributions: 1. Compulsory..... | 6½ percent of employee's basic salary. Agency contribution of 6½ percent of employee's basic salary. | 6½ percent of employee's basic salary. Agency contribution of 6½ percent of employee's basic salary. | 811 | FSR same as CSR. |
| 2. Voluntary..... | Maximum 10 percent of total basic salary received since Aug. 1, 1920. Payable in multiples of \$25. | Maximum of 10 percent of total basic salary received since July 1, 1930. Payable in multiples of 1 percent. | ----- | Do. |
| C. Benefits: 1. Annuitants..... | <i>Annuity.</i> —Based on high 5 average years of salary 1½ percent times 5 years, plus 1¾ percent times next 5 years, plus 2 percent times all years over 10 years of creditable service. Annuity not to exceed 80 percent of high 5 average salary. | Based on high 5 average years of salary 2 percent times total number years creditable service not to exceed 36 years. | 821 | CSR provides maximum 80 percent high 5 average. FSR provides maximum 70 percent high 5 average.. |
| 2. Reduced annuities..... | Reduced annuity with benefits to widow or widower. Corresponding benefits to each dependent child. | Surviving children, widowers, and dependent widowers may be included as survivor annuitants. | 804 | FSR provides survivorship benefits comparable to those of CSR. |
| 3. Survivor annuities: (a) Married participant... | <i>Basic general formula.</i> —Widow or widower (if survivor annuity elected by retiring employee): ½ of all or whatever portion of earned annuity specified as base. Annuity terminates on death or remarriage. | Widow or widower (if survivor annuity elected by retiring employee): ½ of all or whatever portion of earned annuity specified as base. Annuity terminates only on death of widow or widower. | 821 | Important difference in the FSR provision is that the annuity of a surviving widow or widower terminates only on death of such survivor. |
| | Employee's annuity reduced by 2½ percent of 1st \$2,400 of any amount specified as base for survivor benefits plus 10 percent of the amount over \$2,400 up to the full amount of employee's annuity, if specified. | Employee's annuity reduced by 2½ percent of 1st \$2,400 of any amount specified as base for survivor benefits plus 10 percent of the amount over \$2,400 up to the full amount of employee's annuity, if specified. | ----- | FSR same as CSR. |
| | Children: A surviving wife or husband: 40 percent of average salary divided by number of children; \$600; or \$1,800 divided by number of children, whichever is lesser. No surviving wife or husband: ½ average salary divided by number of children; \$720; or \$2,160 divided by number of children, whichever is lesser. | Children: A surviving wife or husband: 40 percent of average salary divided by number of children; \$600; or \$1,800 divided by number of children, whichever is lesser. No surviving wife or husband: ½ average salary divided by number of children; \$720; or \$2,160 divided by number of children, whichever is lesser. | ----- | Do |
| | Children annuities terminate at age 18 (or on recovery from incapacity after 18), marriage or death. On termination of any child's annuity by death, wife or husband's annuity by death, | Children annuities terminate at age 18 (or on recovery from incapacity after 18), marriage or death. On termination of any child's annuity by death, wife or husband's annuity by death, | ----- | Do. |
| | | | ----- | Do. |

* INFORMATION TAKEN FROM CHART ENTITLED "COMPARISON OF MAJOR PROPOSED CHANGES IN THE FOREIGN SERVICE RETIREMENT AND DISABILITY SYSTEM WITH PERTINENT PROVISIONS OF THE CIVIL SERVICE RETIREMENT SYSTEM" APPEARING IN HOUSE OF REPRESENTATIVES REPORTS NOS. 1890 AND 2104, 86TH CONGRESS, 2D SESSION, FOREIGN SERVICE ACT AMENDMENTS OF 1960.

| (1) Items | (2) CSR | (3) FSR | (4) Section | (5) Comments |
|---|---|--|----------------|---|
| C. Benefits—Continued | | | | |
| (b) Unmarried participant. | annuities of surviving children are recomputed as though person whose annuity was terminated had not survived deceased employee. Person in whom annuitant has insurable interest (if survivorship and reduced annuity elected): $\frac{1}{2}$ of participant's reduced annuity. Retiring employee's annuity reduced 10 to 40 percent depending on difference between his age and age of person designated to receive survivor annuity. Survivor annuity continues for life. | annuities of surviving children are recomputed as though person whose annuity was terminated had not survived deceased employee. Designated beneficiary: $\frac{1}{2}$ of participant's reduced annuity. Retiring employee's annuity reduced 10 to 40 percent depending on difference between his age and age of person designated to receive survivor annuity. Survivor's annuity continues for life. | 821 | FSR does not require that the designated beneficiary have an insurable interest. |
| 4. Death in service: (a) Widow-widower..... | Widow or dependent widower: $\frac{1}{2}$ of participant's earned annuity payable until death or remarriage or until widow becomes capable of self-support. | Widow or dependent widower: $\frac{1}{2}$ of participant's earned annuity payable until death of surviving widow or dependent widower or until dependent widower becomes capable of self-support. | 832 | FSR provides continuation of widow's annuity until death and allows the survivor to receive the annuity based on at least 20 years of service. |
| (b) Children: | Children: A surviving wife or husband: 40 percent average salary divided by number of children; \$600; or \$1,800 divided by number of children, whichever is lesser. No surviving wife or husband: $\frac{1}{2}$ average salary divided by number of children; \$720; or \$2,160 divided by the number of children, whichever is lesser. | Children: A surviving wife or husband: 40 percent average salary divided by number of children; \$600; or \$1,800 divided by number of children, whichever is lesser. No surviving wife or husband: $\frac{1}{2}$ average salary divided by number of children; \$720; or \$2,160 divided by the number of children, whichever is lesser. | 832 | FSR same as CSR. Do. |
| 5. Disability retirement..... | After 5 years of civilian service: Same as full age and service benefit. (Guaranteed 40 percent of average salary or annuity projected to age 60 whichever is lesser.) | Excludes from initial 5 years' free credit granted for military service for which no contribution has been made to the fund. Limits amount of extra service credit that can be accredited to a disability annuitant to the difference between his age at the time of retirement and the mandatory retirement age applicable to his class in the Service. Elective survivor benefits based on service credit upon which participant's annuity is computed. | 831 | FSR same as CSR. |
| (a) Tax exemption..... (b) Bar to double annuity | No provision..... If receiving disability compensation under Federal Employees' Compensation Act, Sept. 7, 1916, is not eligible for annuity for same period but not barred from greater benefit of either act. Also is not barred from receiving annuity under this act by reason of own services while receiving concurrently any payment under Federal Employees' Compensation Act by reason of death of some other person. If awarded lump sum under sec. 17 of FEC, amount covering period beyond effective date of annuity must be refunded to U.S. Employees' Compen- | Exempts disability annuity from Federal income tax. Same as civil service..... | 51 831 | FSR provides minimum service credit of 20 years or difference between age of participant at time of retirement and mandatory retirement age, whichever is lesser. FSR provides tax exemptions. FSR same as CSR. |

| (1) Items | (2) CSR | (3) FSR | (4) Section | (5) Comments |
|---|--|--|----------------|---|
| C. Benefits—Continued | | | | |
| 6. Discontinued service retirement. | ation Commission or be deducted from annuity payments for that purpose. Deferred annuity payable at 62 if separated employee has 5 years of civilian service credit. | Deferred annuity payable at age 60 if separated employee has 5 years of civilian service credit. | 834 | FSR provides payment of deferred annuity at age 60. |
| 7. Disposition of contributions in excess of benefits received. | If deceased individual's contributions are not returned in the form of annuity (to individual or his survivors), the unreturned contributions must be paid to a designated beneficiary; or in an order of precedence to widow, children, parents, etc. | If deceased individual's contributions are not returned in the form of annuity (to individual or his survivors), the unreturned contributions must be paid to a designated beneficiary; or in an order of precedence to widow, children, parents, etc. | 841 | FSR aligns precedence provisions with those of CSR. |
| D. Creditable service: | | | | |
| 1. Leave without pay..... | Includes: Leave of absence without pay granted during covered employment while performing active honorable military service; | Includes: Leave of absence for active military or naval service. | 851 | FSR same as CSR. |
| 2. District of Columbia employment. | Leave of absence without pay granted during covered employment while receiving FEC benefits; | Leave of absence granted during covered employment while receiving FEC benefits. | ---- | Do. |
| 3. Transfer of funds..... | Civilian employment with District of Columbia government. | Includes civilian employment with District of Columbia government. | 852 | Do. |
| | No provision..... | Provides for direct transfer to FSR fund of all regular contributions (with interest) made by officer or employee to other Government retirement system under which previously covered. Funds transfer discharges other system of all benefit obligations based on service involved. | 852 | At present persons becoming participants in FSR system may purchase prior service credit by making a special contribution to FSR fund for such amount of service credit as they elect to purchase. The new provision provides for the automatic transfer of contributions in another Government system to the FSR fund when a person becomes a participant in the FSR system by transfer from other Government service. |
| E. Officers recalled or reinstated..... | No provision exactly comparable. | Recomputation of annuity of an officer recalled in the Service and retired a second time. | 871 | |
| F. Reemployment of annuitants..... | Any annuitant reemployed after retirement for age or based on voluntary separation or an involuntary separation for cause, or if retired for disability and is age 60 or over at the time of reemployment, retains his full annuity, but the salary of his position must be reduced by the amount of annuity received. | Provides that reemployed Foreign Service annuitants receive full salary of the position appointed plus portion of their annuity which when added to the salary would equal the base salary received at time of retirement from the Foreign Service. | 872 | FSR provides for potential higher combined income for reemployed Foreign Service annuitants and provides authority to reemploy FSO retired for age. |